

22/09/2021

Mr Sebastian Roberts  
General Manager, Transmission and Gas Branch  
Australian Energy Regulator  
Level 17, Casselden Place  
2 Lonsdale Street  
MELBOURNE VIC 3000

Email

Dear Mr Roberts

**Re: Network Support Pass Through Application for 2019-20 and 2020-21**

TransGrid is writing to advise the Australian Energy Regulator (AER) that a negative network support event for Powering Sydney's Future (PSF) occurred in the 2019-20 and 2020-21 regulatory years<sup>1</sup>. The dollar basis of the financial values in this letter are noted in brackets. These align with the requirements of the AER's network support pass-through guideline.<sup>2</sup>

A negative network support event occurs when actual network support payments are less than the approved network support allowance for that year. In its 2018-19 to 2022-23 revenue determination (2018-23 Revenue Determination), the AER approved a total network support allowance of \$19.13 million (\$ June 2018) for PSF, which included an allowance of \$2.55<sup>3</sup> million (\$ June 2018) for the 2019-20 regulatory year and \$5.83<sup>4</sup> million (\$ June 2018) for the 2020-21 regulatory year.

The PSF network support allowance is intended to enable TransGrid to use non-network solutions to manage the risk of supply outages in the inner Sydney and CBD area, before the new 330kV cable is operational in 2022-23. In its 2018-23 Determination, the AER stated "we ... consider demand management will likely have a greater role in managing potential unserved energy in the future and is likely to be a factor in whether a second circuit is required for the inner metro and CBD area."<sup>5</sup>

In 2019-20 and 2020-21, TransGrid's actual PSF network support payments and were:

- > 2019-20: \$1.21 million (\$ June 2020), an over recovery of \$1.37 million (\$ June 2020), and
- > 2020-21: \$1.21 million (\$ June 2021), an over recovery of \$4.93 million (\$ June 2021).

In accordance with clause 6A.7.2 of the National Electricity Rules (NER), TransGrid is submitting this negative network support pass through of \$6.96 million (\$ December 2022), to be reflected in setting transmission prices for 2022-23.

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<sup>1</sup> Due to an oversight the 2019-20 network support pass through was not submitted in 2020. This has been included in 2021 along with the 2020-21 network support pass through. An adjustment has been made to the 2019-20 pass through calculation to add an additional year to the time cost of money adjustment.

<sup>2</sup> AER, Procedural guideline for preparing a transmission network support pass through application, June 2011.

<sup>3</sup> Equivalent to \$2.58 million (\$ June 2020).

<sup>4</sup> Equivalent to \$6.13 million (\$ June 2021).

<sup>5</sup> AER Final 2018-19 to 2022-23 Determination, Attachment 6 – Capital expenditure, May 2018, pp. 132-133.

The network support pass through application is set out in Attachment 1 for the 2020-21 regulatory year and Attachment 2 for the 2019-20 regulatory year. It has been prepared in accordance with clause 6A.7.2 of the NER and the AER's "procedural guideline for preparing a transmission network support pass through application" (Network Support Pass Through Guideline)<sup>6</sup>.

Please do not hesitate to contact me at [REDACTED] or on [REDACTED] if you would like to discuss our application.

Yours faithfully

[REDACTED]

Stephanie McDougall  
**Head of Regulation**

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<sup>6</sup> Published June 2011

## Attachment 1 – 2020-21 Network support pass through application

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In 2020-21, TransGrid experienced a negative network support event for Powering Sydney's Future (PSF). In order for the network support pass through amount to be incorporated in TransGrid's 2022-23 transmission prices, TransGrid must seek the AER's approval to adjust its maximum allowable revenue (MAR) under clause 6A.7.2 of the NER.

The information required under clause 6A.7.2 of the NER and the AER's Network Support Pass Through Guideline is set out below. The dollar basis of the financial values in this application are noted in brackets.

### 1. Details of the network support event, including whether it was a positive or negative event

The network support event relates to PSF and occurred in 2020-21. In particular, it relates to contracting 50 MW of demand management for the 2020-21 summer.

It is a negative pass through event because TransGrid's PSF network support payments in 2020-21 were less than the network support allowance in the 2018-23 Revenue Determination, for that year, by \$4.93 million (\$ June 2021). Adjusting for the time value of money, this is equivalent to a pass-through amount for the 2022-23 financial year of \$5.37 million (\$ December 2022).

### 2. Network support payment allowance

In its 2018-23 Revenue Determination, the AER approved:

- > a total PSF network support allowance of \$19.13 million (\$ June 2018) for the 2018-23 regulatory period, and
- > a network support allowance of \$5.83 million (\$ June 2018), or \$6.13 million (\$ June 2021) for the 2020-21 regulatory year.

### 3. Actual network support expenditure

In 2020-21, TransGrid's actual PSF network support costs were \$1.21<sup>7</sup> million (\$ June 2021). This amount is entirely direct costs incurred in accordance with the contract discussed in section 8.

### 4. Network support pass through amount, including time cost of money calculations

The value of the negative network support event in 2020-21 is \$4.93 million (\$ June 2021). Adjusting for the time value of money, this is equivalent to a pass-through amount for the 2022-23 financial year of \$5.37 million (\$ December 2022). This has been calculated using the model published by the AER together with its Network Support Pass Through Guideline.

Please find the calculation worksheet at Attachment 3.

### 5. Reasons for the difference between the network support payment allowance and actual expenditure

The variation between the actual network support payments the allowance is due to:

- > COVID-19 and changes to office-based work patterns. This resulted in a marked reduction in Inner Sydney demand as people worked from home, which removed the need to procure higher levels of demand management, and

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<sup>7</sup> Equivalent to \$1.19 million in nominal dollars (assumed to be \$ as at December 2020).

- > one of the three contracted parties being unable to fulfil their contracted capacity resulting in no payments being made to them.

## **6. Verification of actual network support expenditure**

The network support payments have been audited as part of TransGrid's annual regulatory accounts audit process. TransGrid will submit its audited regulatory accounts, for the financial year ending 30 June 2021, to the AER by 31 October 2021.

## **7. Evidence the network support amount occurs solely as a consequence of the network support event**

The network support payments were incurred solely as a consequence of the network support event.

TransGrid has three separate parties contracted under "Network Support Agreement - Non-network Solutions for Powering Sydney's Future" for a total of 50 MW of demand management in 2020-21. These parties are [REDACTED]. The contracts were entered into specifically for PSF.

The network support payments made in 2020-21 relate only to the availability fees for 25 MW of capacity secured under the network support agreements, out of the total 50 MW. This was due to one of the three contracted parties being unable to fulfil their contracted capacity (25 MW) resulting in no payments being made to them. Payments do not relate to dispatch fees because the available 25 MW was not dispatched in 2020-2021 (apart from testing).

## **8. Details on the provider of the network support service**

### **8.1. General details**

TransGrid has three providers of PSF network support services:

- > [REDACTED] - the network support agreement between TransGrid and [REDACTED] commenced on 20 December 2018 and is due to expire on 30 April 2022.
- > [REDACTED] - the network support agreement between TransGrid and [REDACTED] commenced on 21 December 2019 and is due to expire on 30 April 2022.
- > [REDACTED] - the network support agreement between TransGrid and [REDACTED] commenced on 24 December 2019 and is due to expire on 30 April 2022.

The services provided under these agreements are demand management (DM) services, where:

- > DM is defined as "demand management by way of the reduction of the consumption of electricity by a Source and / or the provision of non-market generation by a Source as required by a Call" and
- > DM Services is defined as "DM and related services described in this agreement to be provided by the Provider".

The agreement (clause 3) requires that each of the three contracted parties must:

- > "provide the DM Services and operate and maintain the Sources with reasonable case and in accordance with all Applicable Laws and Good Electricity Industry Practice" and
- > "ensure that each Block is available and capable of providing DM at all times during each Annual Support Period"

### **8.2. Details on processes used to award the network support services contract**

In May 2018, TransGrid commenced an open two-stage RFT process to flexibly procure demand management to manage the risk of supply outages before the new 330kV cable in the inner Sydney and CBD area is operational. The RFT was designed to:

- > allow TransGrid to procure demand management (80 MW in aggregate) should demand forecasts or cable conditions change, and
- > focus on more efficient lower cost solutions should the demand management market further improve with more non-network providers.

Stage 1 of the RFT process closed 31 July 2018. A total of 82 parties downloaded the tender and seven responses were received.

Each response included several components or blocks associated with different technologies and capacities. A total of 42 blocks were offered, with a maximum 116 MW of capacity. As requested, respondents nominated a fee structure for each block comprising:

- > establishment fees (one-off setup costs)
- > availability fees (a monthly fee for that block to be made available), and
- > dispatch fees (a \$/MWh rate for running the block).

TransGrid held one-on one meetings with each of the proponents to discuss their responses and clarify any outstanding matters. In some cases, TransGrid invited proponents to provide further written information following these discussions.

TransGrid applied a detailed network solutions evaluation methodology to assess the responses. Offers were then selected in order of least cost until the energy volume requirement, as described in the RIT-T Project Assessment Draft Report (PADR), was met.

On this basis, TransGrid awarded a four year contract to [REDACTED], which would be ready in time for the 2018-19 summer.

In May 2019, Stage 2 of the RFT process commenced to procure an additional 20-60 MW of demand management, and ensure the efficient lowest cost solutions were being sourced should the demand management market have improved. Tenders closed on 31 July 2019 with four submissions received, totalling 31 MW of network support services. Offers were then selected in order of least cost until the energy volume requirement, as described in the RIT-T Project Assessment Draft Report (PADR).

On this basis, TransGrid awarded a three year contract to [REDACTED], a three year contract to [REDACTED], as well as a continuation of [REDACTED] contract. A total of 25 MW was contracted for 2019-20, and 50 MW contracted for 2020-21 and 2021-22.

In March 2020, Stage 3 of the RFT process commenced to procure an additional 20-30 MW of demand management, and ensure the efficient lowest cost solutions were being sourced should the demand management market have improved. Tenders closed in June 2020 with no submissions received. The existing contracted services were maintained.

### **8.3. Details on whether the RIT-T criteria have been met**

The PSF RIT-T was completed following the publication of the RIT-T Project Assessment Conclusions Report concluded (PACR) in November 2017. The PACR found that PSF is expected to deliver significant net market benefits by managing the risk of substantial unserved energy to inner Sydney<sup>8</sup>. The preferred option (Option 2A), included the use of non-network solutions:

- > before network commissioning, and

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<sup>8</sup> TransGrid & AusGrid, RIT-T Project Assessment Conclusions Report, Powering Sydney's Future, November 2017, p48

> to defer the network build by one year.

The contracts with non-network providers were not entered into as part of this RIT-T process. This is consistent with the way a preferred network option is treated under the RIT-T. In particular, it reflects the fact that a RIT-T is required to be undertaken sufficiently in-advance of the 'identified need' and when the network service provider(s) need to contract suppliers (of either network or non-network services).

#### **9. Details on the TNSP's decisions and actions in managing the network support event**

TransGrid incurred direct costs for contracting 50 MW of demand management for summer 2020-21, with payments made for 25 MW only. The magnitude of demand management that was contracted is consistent with the preferred option (Option 2A) of the RIT-T PACR. The forecast non-network costs in the PACR were reflected in the AER's 2018-23 Revenue Determination.

The lowest cost demand management capacity that met the requirements was contracted for multiple years to manage the risk of that capacity being contracted to other parties in subsequent years.

The 2020-21 network support payments relate only to the availability fees for the 25 MW of capacity which successfully performed under testing. No payments were made to the provider who were unable to fulfil their contracted capacity. The payments made do not relate to dispatch fees because the 25 MW was not dispatched in 2020-2021 (apart from testing).

## Attachment 2 – 2019-20 Network support pass through application

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In 2019-20, TransGrid experienced a negative network support event for Powering Sydney's Future (PSF). In order for the network support pass through amount to be incorporated in TransGrid's 2022-23 transmission prices, TransGrid must seek the AER's approval to adjust its maximum allowable revenue (MAR) under clause 6A.7.2 of the NER.

The information required under clause 6A.7.2 of the NER and the AER's Network Support Pass Through Guideline is set out below. The dollar basis of the financial values in this application are noted in brackets.

### 1. Details of the network support event, including whether it was a positive or negative event

The network support event relates to PSF and occurred in 2019-20. In particular, it relates to contracting 25 MW of demand management for the 2019-20 summer.

It is a negative pass through event because TransGrid's PSF network support payments in 2019-20 were less than the network support allowance in the 2018-23 Revenue Determination, for that year, by \$1.37 million (\$ June 2020). Adjusting for the time value of money, this is equivalent to a pass-through amount for the 2022-23 financial year of \$1.59 million (\$ December 2022).

### 2. Network support payment allowance

In its 2018-23 Revenue Determination, the AER approved:

- > a total PSF network support allowance of \$19.13 million (\$ June 2018) for the 2018-23 regulatory period, and
- > a network support allowance of \$2.55 million (\$ June 2018), or \$2.58 million (\$ June 2020) for the 2019-20 regulatory year.

### 3. Actual network support expenditure

In 2019-20, TransGrid's actual PSF network support costs were \$1.21<sup>9</sup> million (\$ June 2020). This amount is made up of:

- > \$1.22<sup>10</sup> million of direct costs incurred in accordance with the contracts discussed in question 8, and
- > \$0.04<sup>11</sup> million of consultant support costs incurred through engaging GHD to assist with the network support contract establishment.

### 4. Network support pass through amount, including time cost of money calculations

The value of the negative network support event in 2019-20 is \$1.37 million (\$ June 2020). Adjusting for the time value of money, this is equivalent to a pass-through amount for the 2022-23 financial year of \$1.59 million (\$ December 2022). This has been calculated using the model published by the AER together with its Network Support Pass Through Guideline. An additional year of interest on the over recovery (2.5 years in total) has been included in the calculation due to the 1 year delay in submission.

Please find the calculation worksheet at Attachment 4.

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<sup>9</sup> Equivalent to \$1.23 million in nominal dollars (assumed to be \$ as at December 2020).

<sup>10</sup> Equivalent to \$1.20 million (\$ Real 2019-20)

<sup>11</sup> Equivalent to \$0.04 million (\$ Real 2019-20)

## **5. Reasons for the difference between the network support payment allowance and actual expenditure**

The variation between the actual network support payments the allowance is due to:

- > the magnitude of demand management contracted for summer 2019-20 being 15 MW less than that was proposed (40 MW) under the option (Option 2A) of the RIT-T Project Assessment Conclusions Report (PACR)<sup>12</sup> for PSF, and
- > one of the three contracted parties being unable to fulfil 10 MW of their contracted capacity for one month, resulting in no payments being made to them during this period of unavailability.

## **6. Verification of actual network support expenditure**

The network support payments have been audited as part of TransGrid's annual regulatory accounts audit process. TransGrid submitted its audited regulatory accounts, for the financial year ended 30 June 2020, to the AER in October 2020.

## **7. Evidence the network support amount occurs solely as a consequence of the network support event**

The network support payments were incurred solely as a consequence of the network support event.

TransGrid has three separate parties contracted under “Network Support Agreement - Non-network Solutions for Powering Sydney’s Future” for a total of 25 MW of demand management in 2019-20. These parties are [REDACTED]. The contracts were entered into specifically for PSF.

The network support payments made in 2019-20 relate only to the establishment and availability fees for 25 MW of capacity secured under the network support agreements in 2019-20, and establishment of an additional 25 MW to made available for 2020-21 and 2021-22. Payments do not relate to dispatch fees because the network support was not dispatched in 2019-20 (apart from testing).

## **8. Details on the provider of the network support service**

### **8.1. General details**

The contract details for 2019-20 are as described in Attachment 1 Section 8.1.

### **8.2. Details on processes used to award the network support services contract**

The details on processes used to award the network support services contracts are as described in Attachment 1 Section 8.2, with the Stage 2 RFT contract establishment occurring in 2019-20.

TransGrid engaged consultancy GHD to assist in establishing the contracts. This administrative cost is included in the incurred pass through amount as set out in Section 3. GHD were engaged through our existing panel agreement for the purpose of assisting with the PSF network support contracts and arrangements.

### **8.3. Details on whether the RIT-T criteria have been met**

The PSF RIT-T details are as described in Attachment 1 Section 8.3.

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<sup>12</sup> Section 4.7, Powering Sydney’s Future RIT-T PACR, TransGrid, November 2017, <https://www.transgrid.com.au/news-views/lets-connect/consultations/current-consultations/Documents/Powering%20Sydney%27s%20Future%20-%20PACR.pdf>



## **9. Details on the TNSP's decisions and actions in managing the network support event**

TransGrid incurred direct costs for contracting 25 MW of demand management for summer 2019-20, and establishment fees for an additional 25 MW to be available for 2020-21 and 2021-22. The magnitude of demand management that was contracted is consistent with the preferred option (Option 2A) of the RIT-T PACR. The forecast non-network costs in the PACR were reflected in the AER's 2018-23 Revenue Determination.

The lowest cost demand management capacity that met the requirements was contracted for multiple years to manage the risk of that capacity being contracted to other parties in subsequent years.

The 2019-20 network support payments relate only to the establishment and availability fees for the 25 MW of capacity which successfully performed under testing. No payments were made for the duration of time where one of the providers was unable to fulfil their contracted capacity. The payments made do not relate to dispatch fees because the 25 MW was not dispatched in 2019-20 (apart from testing).